

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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In the Matter of the Application of
GOLDEN STATE WATER COMPANY
(U 133 W) for an Order authorizing it to
Increase Rates for Water Service by
\$2,812,100 or 32.61% in 2008; by \$-
178,700 or -1.51% in 2009; and by
\$109,900 or 0.92% in 2010 in its Arden
Cordova Customer Service Area.

A.07-01-009
(Filed January 5, 2007)

A.07-01-010
A.07-01-011
A.07-01-012
A.07-01-013
A.07-01-014
A.07-01-015
(Filed January 5, 2007)

And Related Matters.

**COMMENTS OF GOLDEN STATE WATER COMPANY (U 133 W)
ON THE PROPOSED DECISION OF ALJ DeANGELIS**

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This proceeding constitutes the first comprehensive general rate case since 2000 for the seven ratemaking areas that are organized as Golden State Water Company's (GSWC) Region I. While GSWC and the Division of Ratepayer Advocates (DRA) settled on the dollar value of the majority of the components of cost of service that comprise GSWC's projected revenue requirements for the 2008 – 2010 rate case cycle, over 25 items were disputed and litigated during evidentiary hearings. The disputed issues ranged from four new labor positions to virtually the entire capital budgets for four of the seven ratemaking areas in Region I, including contingency and overhead.

The recently issued Proposed Decision of Administrative Law Judge DeAngelis (Proposed Decision) presents a thorough and thoughtful evaluation of the extensive evidentiary record in this matter, both in approving the Stipulation between GSWC and DRA and in resolving the many disputed issues. GSWC supports the Proposed Decision and respectfully commends the Administrative Law Judge, both for the thorough review of the evidence and well-reasoned conclusions reached throughout the Proposed Decision, as well as the timeliness in issuing the Proposed Decision even while facing shortages of necessary Commission staff.

To ensure that the final decision adopted in the proceeding is wholly accurate and free from the possibility of differing interpretations, GSWC sets

forth below comments on five issues that it requests be considered by the Commission and ALJ DeAngelis.

1. **Capital Budget Contingency Rate (PD § 7.17)**

This first issue – contingency rate – arises in the context of preparing and then implementing annual capital budgets for each of GSWC’s customer service areas. As a predicate matter, GSWC believes that management bears the responsibility both to *prepare accurate capital budgets* and to *pursue cost containment* when designing and constructing the budgeted capital projects. The Proposed Decision endorses this underlying framework. Proposed Decision, *mimeo.* at p. 34.

Contingency is a tool designed to strike a balance between the cost of preparing a completely accurate capital budget and the actual cost of designing and constructing that capital project. The Proposed Decision explains that the contingency rate is expressed as a percentage of the capital budget, and is used for funding both *unexpected capital expenditures* as well as *unforeseen cost overruns* of budgeted capital projects. Proposed Decision, *mimeo.* at p. 33.

The issue to be decided is what exact percentage is the appropriate contingency rate to be adopted in this case. The Proposed Decision fears that too high a contingency rate would “indirectly sanction” budget overruns and “poor

management.” GSWC testified that use of a 10% contingency rate within its budget estimates for capital projects is not only standard practice within the construction and utility industries, but also strikes the proper balance between the cost of preparing capital budgets and the risk of cost overruns during construction due to economic fluctuations in labor and/or material costs or changes in the scope of work resulting from unforeseen problems encountered once construction begins. GSWC Gisler, Ex. GSW(all)-22 at pp. 9-10.

Ultimately, the Proposed Decision decides upon a capital budget contingency rate of 5%. The Proposed Decision relies on its understanding that the Commission’s last two GRC decisions for GSWC’s Regions III and II, D.06-01-025 and D.07-11-037, respectively, adopted a 5% contingency rate. But the Proposed Decision errs with respect to the Commission’s most recent decision, D.07-11-037 for Region II.

In the Region II GRC, DRA and GSWC stipulated that the contingency rate to be included in the capital budgets for the Central and Southwest Districts and the Metropolitan Customer Service Area for 2007 and 2008 would be 10%. *See* DRA 2006 Testimony, Exhibit 22 in evidence at pp. 4-64 - 4-65 (“GSWC’s request for Contingency is based on 10% of the total; DRA used the same methodology”); D.07-11-037, Attachment A at Appendix B Capital Budgets. The Commission approved this section of the Stipulation. D.07-11-037, *mimeo.* at 5.

Thus, the Commission's most recently adopted contingency rate for capital budgets similar in nature to the capital budgets at issue here is 10%, not the 5% that the Proposed Decision mistakenly cited. Accordingly, GSWC respectfully requests that the Commission adopt a 10% capital budget contingency rate in this matter. The evidentiary record supports 10%. Moreover, a 10% contingency rate will allow GSWC to carry out its responsibility both to *prepare accurate capital budgets* and to *pursue cost containment* when designing and constructing the budgeted capital projects. Lastly, a 10% contingency rate will fund both *unexpected capital expenditures* as well as *unforeseen cost overruns* of budgeted capital projects.

2. Vacant Positions (PD § 7.7.1)

This issue involves forecasted labor expenses for the test year 2008. With the exception of the expenses associated with the four new labor positions disputed and litigated during the evidentiary hearings, DRA and GSWC reached a settlement on the appropriate amount of labor expense. The Proposed Decision reviewed and approved Section 4.00 of the Stipulation and the reconciliation exhibits, which set forth the original positions of both GSWC and DRA on labor expense, as well as the compromised amount of labor expense that the parties ultimately agreed upon. Proposed Decision, *mimeo.* at 19-20.

The Proposed Decision finds that the “amounts for labor expenses [are] reasonable under Rule 12.1.” Proposed Decision, *mimeo.* at 20. However, the Proposed Decision then states that “DRA claims that Golden State projected its labor expenses by starting with actual and vacant positions in certain CSAs. To the extent this has occurred, **we direct Golden State to modify its projections** consistent with our finding in D.05-07-044.” Proposed Decision, *mimeo.* at 20; Conclusion of Law 18; Ordering Paragraph 5.

GSWC seeks clarification from the Commission with respect to this directive in Ordering Paragraph 5. GSWC understands the holding of D.05-07-044 and how it pertains to the next general rate case that GSWC will file. However, with respect to the instant proceeding, GSWC respectfully submits that the Proposed Decision’s directive to “modify its projections” is **moot**.

DRA raised its position on the need for an adjustment for vacant positions in historical recorded labor expense both in testimony and during settlement negotiations with GSWC. DRA’s methodology to project labor expenses for Test Year 2008 was discussed, negotiated and ultimately reflected in the amounts agreed upon by the parties in Section 4.00 of the Stipulation.

Put another way, the labor expenses agreed upon in Section 4.00 of the Stipulation are **not** GSWC’s original request, nor are such labor expenses based solely on GSWC’s projections. Rather, where the original position of GSWC and

DRA differed, the stipulated amount is a new dollar amount that represents a compromise by the parties. This can be proven by comparing DRA and GSWC's original positions to the Stipulated amount for all labor expenses in Section 4.01 of the Stipulation.

Accordingly, the Proposed Decision's directive that GSWC "modify its projections" of labor expenses has, in essences, already occurred during GSWC's negotiations with DRA. GSWC considered DRA's arguments and compromised on the dollar amounts set forth in Section 4.00 of the Stipulation. Thus, GSWC does not believe that anything further needs to be done in this case. GSWC respectfully requests that the Proposed Decision withdraw Ordering Paragraph 5, or clarify that its directive pertains to future general rates cases.

3. Clearlake CSA Water Loss (PD § 8.4)

The Clearlake Customer Service Area in northern California serves about 2,200 customers. The source of water supply for the Clearlake CSA is raw water from Clear Lake, which is then treated at the Sonoma Treatment Plant and distributed throughout the system. The Proposed Decision approves the capital budget for the Clearlake CSA, which was agreed upon by GSWC and DRA. Proposed Decision, *mimeo.* at 46.

The Proposed Decision also addresses the issue of “water loss” in the Clearlake CSA. Based on historical water loss within the Clearlake system, DRA and GSWC stipulated to 44.6% water loss for test year 2008. Proposed Decision, Attachment A (Stipulation) at § 3.03. The Proposed Decision notes that the revised Rate Case Plan establishes a target of 7% for water loss. The Proposed Decision further states that it “expects Golden State to make progress on reducing its Water Loss and to seek any additional Commission approvals necessary to accomplish this goal.” The Proposed Decision then directs GSWC to “file an advice letter within 120 days of the date of this decision proposing a solution to reduce Water Loss in the Clearlake CSA.” Proposed Decision, *mimeo.* at 46; Ordering Paragraph 9.

To be sure, GSWC will comply with the Commission’s directive. However, GSWC respectfully requests that the Commission reconsider the language of Ordering Paragraph 9 to ensure that Water Division is provided with sufficient authority to act upon GSWC’s proposal in the subject advice letter. For example, in Ordering Paragraph 7, the Proposed Decision requires GSWC to file an advice letter containing a proposal to fluoridate the water in the Bay Point CSA. The advice letter shall set forth the costs associated with fluoridation and a cost recovery mechanism. After Water Division reviews the advice letter, “if we find the costs associated with fluoridation reasonable, we

will issue a resolution to direct Golden State to proceed.” Proposed Decision, *mimeo.* at 75; Ordering Paragraph 7.

GSWC seeks similar language in Ordering Paragraph 9, stating what action Water Division is to take once it receives GSWC’s advice letter proposing a solution to reducing water loss in the Clearlake CSA. Or, if the Proposed Decision intends this advice letter solely to be a report to convey GSWC’s plan to reduce water loss, GSWC requests that the Commission provide such clarification.

4. City of Ojai Meeting (PD § 8.6.1)

The Ojai CSA serves about 2,900 customers and is located in the Ojai Valley within Ventura County. The Proposed Decision adopts a 35% rate increase for 2008 in the Ojai CSA. Proposed Decision, *mimeo.* at 2. A significant portion of that rate increase is devoted to an intensive capital replacement program that includes, among other things, replacing aging infrastructure like mains and pipes and inoperative valves within the transmission and distribution systems. Proposed Decision, *mimeo.* at 54.

The Proposed Decision, like GSWC, believes that the capital budget adopted for the Ojai CSA will lead to improved water quality and greater reliability of water service. “[T]he approved capital projects . . . are needed to

achieve the goals set forth in the Water Action Plan 2005 to improve water quality, service reliability, and upgrade aging infrastructure.” Proposed Decision, *mimeo.* at 3.

The City of Ojai intervened in this proceeding and expressed its views regarding water quality and system reliability through the testimony of City Manager Mr. Kersnar. One fact established by both Mr. Kersnar and GSWC’s Region I senior executive, Patrick Scanlon, is that GSWC and the City of Ojai have met often and maintained an open line of communication and ongoing dialogue concerning GSWC’s operation of the Ojai CSA.

Acknowledging that the \$1.14 million rate increase approved for the Ojai CSA for 2008 is large, the Proposed Decision “directs Golden State to meet with the City of Ojai, **at the City’s invitation**, to discuss matters related to water quality and service reliability.” Proposed Decision, *mimeo.* at 53; Ordering Paragraph 10 (emphasis added). To be sure, GSWC has met with the City of Ojai to discuss these matters on many occasions in the past and GSWC will continue to do so, even without the Commission’s directive. GSWC cares about its customers and the water they receive. Indeed, since the issuance of the Proposed Decision, GSWC has called the City several times to arrange the meeting.

The Proposed Decision also requires that the City of Ojai “contact the Director of the Water Division with any unresolved concerns regarding water

quality and service reliability at the conclusion of these meetings. Then, the Director of the Water Division shall recommend a procedure to the Commission for investigating this matter further.” Proposed Decision, *mimeo.* at 53; Ordering Paragraph 10. With respect to this portion of the Order, GSWC requests that language be added that provides GSWC be notified promptly should the City of Ojai contact the Director of the Water Division with any concerns. GSWC also requests that it be informed of the specific details of those concerns.

For example, if the City of Ojai were to telephone the Director of the Water Division pursuant to Ordering Paragraph 10, GSWC respectfully requests that language be added to this paragraph requiring the Director to promptly contact GSWC and convey the contents of the conversation. Or, should the City of Ojai send a written communication to the Director of the Water Division, GSWC requests that language be added to the Order requiring the Director promptly to send a copy of the written communication to GSWC.

GSWC will work to maintain an open and positive relationship with the City of Ojai. To further that end, any future communications that may occur between the City of Ojai and the Commission’s Director of the Water Division should be shared with GSWC.

5. **Minor Corrections to The Proposed Decision**

a. **DRA Recommended Return on Equity (PD § 7.19)**

The Proposed Decision states in Section 7.19, Cost of Capital, that “DRA proposed 10.27% return on equity.” Proposed Decision, *mimeo.* at 36 and fn. 19. However, while that number appeared in DRA’s original report emailed to the service list, DRA revised that number almost immediately in its errata. In fact, DRA’s position on cost of equity in its direct testimony was **10.09%**. See Proposed Decision, Attachment A (Stipulation) at Section 10.01: “GSWC requested a return on equity of 11.25%. DRA recommended a return on equity of 10.09%. Following discussions between the parties it was agreed that a return on equity of 10.2% was reasonable.”

Accordingly, GSWC requests that this error be corrected at page 36 and footnote 19 of the Proposed Decision to reflect the fact that DRA recommended a ***10.09% return on equity*** for this rate case cycle. While this requested correction might seem trivial, GSWC has already received inquiries from financial analysts who have reviewed the Proposed Decision. These analysts have questioned the logic of GSWC settling on a 10.2% return on equity, ostensibly *lower* than the 10.27% return on equity that the Proposed Decision cites as DRA’s recommendation. GSWC will benefit from correcting this error.

b. Arden System Water Supply (PD § 8.2)

In its background discussion of the Arden Cordova CSA, the Proposed Decision mistakenly states that the “entire water supply for the Arden Cordova system is generated by wells owned by Golden State.” Proposed Decision, *mimeo.* at 41 (emphasis added). That statement is true only for the Arden system, not the Cordova system.

In GSWC’s Report of Operations for the Arden Cordova CSA, Exhibit GSW(AC)-1, GSWC testified in Paragraph 4 that the “entire water supply for the *Arden system* is generated by six Company-owned wells located in the District.” In the next paragraph, however, GSWC testified that the “source of supply for the *Cordova system* includes a direct filtration treatment plant and fifteen active Company-owned wells, which are located throughout the system.” GSWC Exh. GSW(AC)-1 at p. 3-2, ¶ 4-5. In fact, about 25% of the total supply for the Arden Cordova CSA is surface water. Proposed Decision, Attachment A (Stipulation) at § 8.01.

Accordingly, GSWC requests that the Proposed Decision be corrected. GSWC suggests that the following sentence replace the above quote from the Proposed Decision: “The sources of supply for the Arden Cordova CSA include water drawn from wells owned by GSWC and surface water treated in a direct filtration treatment plant.” Given that surface water is such a significant portion

of the water supply for the Arden Cordova CSA, GSWC believes that correcting this minor error in the Proposed Decision is warranted.

Dated: January 7, 2008

Respectfully submitted,

Patricia A. Schmiede
Law Office of Patricia A. Schmiede

_____/s/____

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Golden State Water Company

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **“Comments of Golden State Water Company (U 133 W) on the Proposed Decision of Administrative Law Judge DeAngelis”** on all known parties to A.07-01-009, et al., by sending the entire document as an attachment to all parties who provided electronic mail addresses to the Commission, as follows: rmd@cpuc.ca.gov; cwl@cpuc.ca.gov; vcc@cpuc.ca.gov; fic@cpuc.ca.gov; snr@cpuc.ca.gov; jkersnar@ojaicity.org; kstaples@verizon.net; enriqueg@lif.org; wdmiley@aol.com; kcouturie@pobox.com; kswitzer@gswater.com; jgaron@gswater.com; rkmoore@gswater.com .

Executed on January 7, 2008 at San Rafael, California.

_____/s/_____
Patricia A. Schmiede